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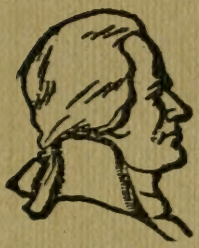
[Modern business Talks]

IN TOUCH WITH THE ULTIMATE CONSUMER

Many people are engaged in retailing, but only those who keep pace with the changes demanded will hold their places in commercial expansion.



MODERN BUSINESS
TALK No. 38
(WITH VOLUME 19)

ALEXANDER HAMILTON INSTITUTE
NEW YORK

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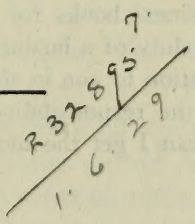
In Touch With the Ultimate Consumer

This Talk, to be read in connection with Volume 19, forms part of READING ASSIGNMENT 38



ALEXANDER HAMILTON INSTITUTE
NEW YORK

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READING ASSIGNMENT

The current Reading Assignment consists of three parts: (1) this Talk; (2) Pages 175-348 of Volume 19, "Merchandising", and (3) Problem No. 19.

Do you like your reading solid, or easy? Coleridge, the poet, held that the reader never appreciates or remembers what he does not have to work for. On the other hand, Spencer argued that the less there is in a book to puzzle the reader, the more attention he has left to give to the questions of how much of it is true and how far it is important. There is no room in business books for the poetic brand of writing. It is the duty of a business author or editor to get the information to you in the shortest, quickest way. After that, the responsibility is yours. "Is it true? Then how can I get the most out of it?"

In Touch with the Ultimate Consumer

> The average period of employment in general stores is less than a year, yet some stores have been able to raise the average to two or three years.—Page 215, Chapter IV, Part II, Volume 19 of the MODERN BUSINESS Text.

Until within fifty or sixty years, retail merchandising was virtually what it had been for centuries. Retail shops were a feature of the earliest civilizations. The merchants of Assyria, as we know, had their accounting and credit systems. To be sure, they were not written on paper. The collection follow-up, for instance, must have been stamped on tablets of clay, and it is using no mere figure of speech to describe the merchant of Babylon or Nineveh as coming down on his luckless debtor like a "ton of brick."

We do not know so much about the mercantile practices of ancient Egypt. Certainly, the acute bazaar-keepers of Thebes and Memphis could have had little to learn from the heavier-witted Assyrians. Suppose that seventy or eighty years ago you had been able to restore to life one of those mummied bazaar-keepers and had brought him across the Atlantic. You could have taken him thru any of our best little emporiums of the day without administering the slightest shock either to his personal pride as a merchant or his national spirit of conservatism!

"You certainly have it on us in the variety and novelty of your goods", he might have conceded, "but getting right down to actual selling—which is the core of the thing—you'll have to show me! Fundamental changes? I can't see 'em. We had our 'asking' and 'selling' prices, just as you have. We were better, I believe, at haggling. What d'ye mean—progress?"

Two Epochal Changes

But if the visit had been deferred a few years, until, say, 1865 or 1870, there would have been another story to tell. The Egyptian visitor would then have found the famous haggling system being replaced by the present one-price-to-all policy. He would have seen the ancient tradition of "let the buyer beware" giving way to the newly introduced money-back guarantee.

These were epochal changes in retailing. Without them the great commercial expansion of these later days is unthinkable; the department store, mail-order house, store chain, retailers' combine and consumers' cooperative, all these could hardly have come into existence. We would not be marveling at the "economy" and "self-serving" groceries and the "name-your-own-price" restaurants, and wondering what is to come next.

How these changes came about, and thru what principles are made clear in the current reading assignment in the accompanying Text. Obviously, they spell greater opportunity, an opportunity, too,

that disregards the old boundary lines dividing the different industries. The biggest of the mail-order successes, for instance, was achieved by a man brought up in the railroad business. The largest retailer's drug chain was organized by a manufacturer's representative. But these men knew business principles. The great merchants of the future will naturally then be men of broad experience and training, whatever their start.

A Quick Rise in a Dozen Years

There is at bottom nothing exceptional in the career of a young man who came to the city less than a dozen years ago and at the outbreak of the War was an important member of a certain very remarkable retail organization. His experience has taken in the War changes—the regulation of foods and prices, for instance, the railroad congestion and the sacrifice of retail deliveries. He noted also the trade acceptance, which is coming to mean so much to the retail field. These features are recent and so generally familiar that it is enough here to mention them. We are more concerned with the young man's earlier steps.

In his home town Alec Hopper had "clerked" in the village store. In the city, his first job was with a neighborhood corner grocery. Soon afterward, he switched to a wholesale woolen house, and later became clothing salesman in a department store. Like most young fellows, he was not looking very far ahead, or setting any particular value on training.

One day, in the store, a man on whom he waited asked him to call at his hotel for a talk. He proved to be an out-of-town manufacturer and offered Hopper a better position. Tho much pleased, the young fellow said he believed he would stick to retailing. He felt he had made a mistake before in leaving it.

Get Business Judgment

"All right", said his acquaintance. "Stick to the thing you like, but stick to one thing—and it makes all the difference in the world what you mean when you say 'one thing.' Is it a rut to run in—or a power to develop? Let me tell you there is no hope today for big success in any field unless you know more than your one line. Let those fellows plug on details who cannot get beyond them. Then you hire and manage them. Learn how to handle men. Get business judgment. Those are the things that count!

"You're a clothing salesman now. For all you know, you may wind up a tobacco or steel manufacturer, mail-order expert, or film producer—you can't tell. Look at the way leaders change. Big business reaches over from one industry into another and grabs a strong man there just because he has shown a grasp of business principles, will bring in fresh ideas and come without strings.

"Don't learn too much as mere detail. You would be surprised if you knew how little attention the biggest men give to what you'd think are really important things. I know a manufacturer of automobile tires, a leading man in the industry, too, who was

asked about the composition of his best tire. 'I don't know. Ask my chemist', he said. If they had asked about finance, or organization, or management, that would have been different.

"Don't worry about advancement. You're young yet. Your job for the next five or six years ought to be to learn business. I mean not merely the retail end of business, but business as a whole. Get some good books on business and economics. Learn the principles of business. Know what you are doing. Plan as big as you know."

Trying to Find the Mainspring

The advice sank in. Hopper began to reflect on his experience. He had previously fixed upon personal salesmanship as the one dominant element in merchandising. Now it came home to him that the department's head was the buyer. Then he awoke to the power of advertising. These successive discoveries threw his ideas into confusion. He turned to business books for the explanation.

Eventually, seeking more experience, he migrated to a chain clothing store. The change immediately bore fruit. One of the important things he learned was the emphasis placed on sales training. Hopper had never dreamed of such drilling. There were lectures from headquarters and demonstrations of the minutest sales points; there was a house publication prepared for the eleven stores, filled with instructions and suggestions; and there was endless other literature to be read.

The chain's activity was not limited to personal selling. Hopper was much taken by the tastefully printed "personal letter" which went out periodically to his customers over his own signature, at the house's expense. He woke up to the big possibilities in sales cultivation.

Selling the Advertising Idea, Not Clothing

After nearly a year in this berth, Hopper, wishing to see the clothing line from still another angle, again pushed on. His new connection was with a national advertiser. Before sending him out on the road to visit retailers, this manufacturer, too, gave him a training. Hopper was a good deal taken back when he found his previous clothing and selling experience unceremoniously brushed aside. He was coached to talk advertising and service more than fabric, pattern or style.

He had little faith in the instruction, but later, out on the firing line, he found, to his genuine surprise, that going after business in this way brought sales. The clothing was all right, the retailers agreed. What they wanted to know was how fast it would sell. How much would the manufacturer spend in the magazines to "move it?" How much would he allow for local advertising? What dealer-helps would he supply? Had he any novel plans for circularizing the dealer's customers? This was the kind of information the trade wanted.

Hopper soon saw the light. He understood why the firm was so much interested in retailers' welfare:

the greatest impediment to larger clothing accounts was not competition, but the locking up of the dealers' capital in dead or slow turning stock, their poor accounting systems, unsightly stores, indifferent clerks. The efforts of manufacturers in all lines to help the more backward merchants keep up with the chain stores were dictated by simple prudence. Hence the correspondence courses in salesmanship they had prepared for the trade, the talks given by traveling salesmen, the house organs published with discussions of store management, instructions on sales mark-up and hints on window and store display. Sometimes manufacturers had prepared full systems of retail accounting and stock-keeping for their dealers. Hopper also noted the fact that Harvard University and the Associated Advertising Clubs had devised and distributed standard systems.

Six months later Hopper startled a friend.

"I'm going to see what makes the five and ten cent store wheels go round", he announced.

"And throw away all your experience?"

"Watch me!" said Hopper. "When I get ready to settle down, I'm going to pick my job and it'll be a six-cylinder one right from the start. I'm going to know retailing, and before I'm thru some of the big fellows will know I know it."

Buying for Five and Ten Cent System a Revelation

Sacrificing salary and present opportunity, he accepted a small job with one of the five and ten cent chains. A few months later he was store manager.

Everything he had learned before in the way of standardization was child's play compared to the system he found here. He had thought he knew something about buying, but the chain's methods were a revelation. Its buying was done at headquarters by high-salaried men. On every new item, however, with other store managers, he was asked for an opinion on samples. Would it sell and to what extent? On the other hand, the stores' daily report of sales and stock on hand and their requisitions supplied the buyers with data on the more staple articles.

Hopper realized headquarters' distrust of snap judgments, even when made by high grade men. The pains taken to anticipate the public's verdict deeply impressed him.

There had been a time when 5 and 10 cent store managers commanded large salaries. The first managers of the Woolworth chain were essentially partners. Some managers still drew eight or ten thousand dollars a year, but they were few. The whole system was changed. Standardization was taking the place of personal initiative, every duty was defined. All that was left to the manager was to see that it was done and done quickly.

Locating Cigar Stores

Hopper's next jump was to a cigar store chain. Naturally curious, he had by this time trained himself into a human interrogation point.

"Why did they put the store on this corner?" he

asked a fellow clerk. "How do they manage to get so many corners?"

"Don't you know how the company selects its sites?" was the retort. "That's been talked about so much I thought everybody knew. When it decides on a new town it sends an expert in to count the traffic at the principal corners. He carries a pocket register and ticks off everybody that passes. He does this for many days, at different hours. Then he analyzes the crowds into men, women and children, smokers and non-smokers, etc."

"Is all that necessary?" asked Hopper.

"That's only the beginning", said the clerk. "Sometimes the company can't get the corner. Then it may buy the whole building. If not, it locates near the corner. The cleverest work it does is planning years ahead. The real estate chief is a wizard; he knows the location, price and ownership of every worthwhile business corner in the country. He takes long leases on desirable property or buys it and rents it out, until the company thinks it worth while to open stores. The real estate department always shows a big profit. Some say it carries the whole business."

Helps the Traveling Auditors

All of the stores in the chain were as alike as peas in a pod. Their outside uniformity was so much good advertising. The standard interiors chiefly helped the traveling auditors who visited each store twelve times a year. Hopper was amazed at the speed with which they worked. Two always came

together. One handled the goods while the other kept the books. The first man would pull out a box, open it, glance at it, and instantly call off the number of cigars in it, then go on to the next. It was a lesson to Hopper as to what can be done by practice. This elaborate system checked up the store clerks and also served as a basis for buying.

During his stay with the chain, Hopper was impressed by the consideration felt for the public's good-will. He had laughed on first hearing how clerks were obliged to thank customers for sales. Now he saw the idea thru different eyes. Most retailers as he knew "pushed" the goods on which there was most profit, and also, of course, the "stickers." In the cigar store chain, the clerks were never told which goods were most profitable; consequently they could not influence the public against its natural taste and inclination. Beneath this seeming quixotism lay, as Hopper guessed, a sure perception of the advantage to be derived from knowing exactly what the public wants.

It was after Hopper left the cigar store chain that it began to annex scores of independent cigar stores and cigar stands located in drug stores by making them its agencies. In this way it extended its field more rapidly and less expensively than it could otherwise have done. In this way, also, it attained a position where for the first time it could advertise on a national scale, which before it could not do without waste, since its relatively few stores could serve only a few of the smokers its advertising might attract.

With agencies spreading out beyond the stores, the situation was different: the chain could blanket the country and thus take care of all the business created. Up to this time the live independent competitors had given the chain stores a hard run. But what could they do when the chain's new system really got to working? They could not sell the chain's advertised brands, but the chain stores could sell theirs and their own as well. The competing chains were in the same pickle. These developments made Hopper thoughtful.

Drug Chain Store Needs a Different Policy

From the cigar store Hopper went to a chain drug store. In this chain he found that the benevolent despotism of the cigar store corporation was not held in such high honor; standardization is more applicable to cigar stores, where the stock is small and more or less staple. In the drug stores the stock is large, with many novelties, giving a chance for bargain sales. The salespeople, too, are more important there. They have to be cheered and developed more than "systematized."

The managers of these large stores are important figures. They often buy, which managers of chain stores in other lines generally do not. Many stores earn revenue from their show windows. Sometimes they lease them outright, often, in the largest stores, for as much as one hundred dollars a week for a six-foot frontage; at other times they get an equivalent concession in goods or price.

Hopper next traveled for a toilet goods manufacturer and studied the small town drug stores.

"One line more", he said, "and I shall be ready for the big drive: it would be a shame to overlook the mail-order field."

One Big Idea from the Mail-Order Field

He made his observation of this field from a position at the buying end of the men's clothing department of a large catalog house. Here again, as in the other forms of retail business, he found a paramount importance given to the customer's good-will. Satisfaction was guaranteed. Sales adjustments were made without question. He learned that one big house did not even retain the records of the orders, but satisfied all complaints on demand, finding it cheaper to lose $60,000 or $70,000 a year outright than to keep the orders for reference.

"We'd fix it up, anyway", the department head explained. "We couldn't afford not to do so. So why not make capital out of the necessity?"

And now came the turning point in Hopper's career. In his travels he had come into touch with a new clothing chain. It had features that awakened his interest, and he made inquiries. He found it was less a chain than a series of independent partnerships united in a buying and operating syndicate. Every store manager was a third partner in his own store and frequently in many others. No man was made a clerk in a store unless he seemed to have it in him soon to become a store manager and partner.

If he turned out right, the syndicate head would lend him the money to open new stores. Each store partnership was worth from two thousand dollars a year upward.

Hopper was astonished. He could understand altruism, but he knew altruism seldom paid in a big way. Here was a man who gave up two-thirds of each new opportunity in sight and helped finance these men who were as much competitors as they were partners. Yet business and opportunity together grew faster than before and the man's income was rolling up into remarkable figures. How was it done? Hopper puzzled over the question a long time.

Is This the Secret of a Big Success?

"Eureka!" he exclaimed, at last. "I've got it! There are four big principles involved. First, pick high-grade men who know the game. Second, promise them partnership. Third, make good on your promise by opening up new stores for them. Fourth, pool the buying power.

"The advantage is in the higher energy and intelligence developed. So long as new stores can be opened there is nothing in the world that can beat the system! And even if they have to slow down, how much worse off will they be than any other stores?"

Hopper succeeded in entering the partnership chain, giving up a forty-five hundred dollar position to take one at fourteen dollars a week. That was five years ago. Now he is a third partner in three

stores. His income from them is eight thousand dollars. If it had not been for the War he would have opened one or two new stores this year. Instead, other things claim his attention; he is with the quartermaster's department in France.

The facts and principles brought out in this one man's experience are only a few of those covered in the current Text. The various elements of success in retailing are there carefully analyzed and their importance shown. All in all, whether your interests do or do not touch the retail field, the subject is one you cannot afford to neglect altogether.

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